Small Steelmaker Geneva Struggles Amid Import Crisis

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An '80s Success Story, Under Heavy Debt Load, Considers Bankruptcy Protection

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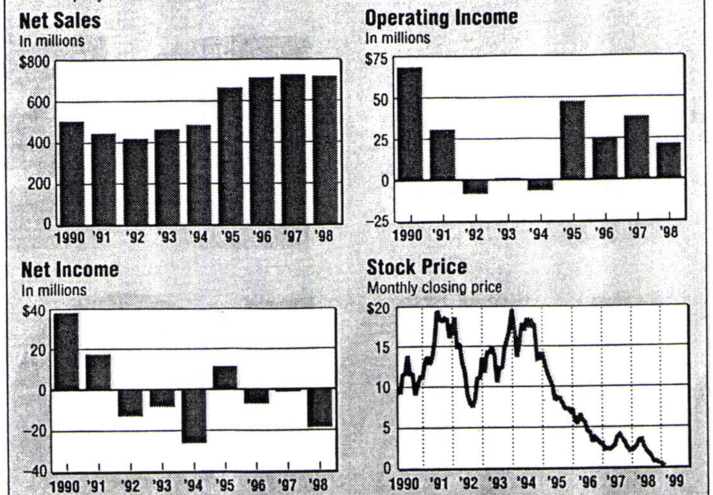
More than 50 years ago, the U.S. government built a big steel mill behind the mountains of Utah, hoping it would prove invulnerable to attack by enemy warplanes.

That mill still stands, but the very thing designed to protect it during World War II, its remoteness, is contributing to its undoing today. Called **Geneva Steel** Co., it is on the verge of financial collapse a mere 12 years after being given new life by a group of Utah businessmen who poured money into updating it. For the steel industry in general, and Geneva in particular, it's a painful lesson that perhaps no amount of modernization can make an old-style integrated steel mill competitive with low-priced imports and low-cost domestic minimills.

In the 1980s, the U.S. steel industry went through a wrenching downsizing that cost it hundreds of thousands of jobs. But the industry restructured and modernized, emerging as a far tougher – and more efficient – competitor in the world steel market. But, as the industry is discovering today, that wasn't enough to make it competitive against what it says are illegally dumped imports.



Geneva Steel's Woes

While sales have grown and operating income is generally healthy, debt service has helped drag the company's results into the red.

Sources: Securities and Exchange Commision filings, Baseline

Failure to Make Interest Payment

Even so, Geneva's woes go deeper than the current import crisis. On Friday, the Vineyard, Utah, company failed to pay a $9 million interest payment on its debt. Already, Standard & Poor's Ratings Group, the credit-rating service, has said that a bankruptcy-law filing by Geneva is "likely," and George Becker, the president of the United Steelworkers of America, is citing Geneva as yet another casualty in the war against steel imports. Mr. Becker, in a conference call to discuss President Clinton's steel-relief plan, stated that "Geneva Steel is facing bankruptcy" – a sentiment shared by analysts.

Two other small steelmakers – **Laclede Steel** Co. and **Acme Metals** Inc. – have already made bankruptcy-law filings.

For its part, Geneva said it is considering "all options," including bankruptcy-court protection from creditors and a significant restructuring of its debt. It has retained financial and legal counsel to work through the alternatives. The company said it will begin talks with its bondholders this week. Geneva's chairman and chief executive officer, Joseph Cannon, said the timetable for determining the company's fate could be "30 days on the short end, or 180 days on the long end."

But he's not ready to give up. "I just love this mill," said Mr. Cannon. "People have been predicting its death for 50 years, but we have an incredibly resilient work force. We are here for the long term."

The current predicament is a far cry from the late 1980s, when a group of Utah businessmen–dedicated, but still green in things steel – brought Geneva back from a similar near-death experience. In 1986, the mill was owned by the USX Corp.'s USX-U.S. Steel Group, which had taken it over from the U.S. government after World War II. The mill, sitting about 45 miles south of Salt Lake City, was old and inefficient, its ancient open hearth furnace the last of its kind in the country.

Executives Hailed as Saviors

U.S. Steel, saying the mill was beyond repair, wanted to close it down. But a group of local investors led by Mr. Cannon cobbled together a financing package. They bought the plant from U.S. Steel for just over $40 million – a few million less than U.S. Steel had paid the government for the mill in the 1940s. U.S. Steel retained Geneva's pension and health retiree costs, two big-ticket items that were strangling many other domestic steelmakers. Without those so-called legacy costs pulling them down, and with the steel industry just starting a rebound, Geneva took off.

Its executives were hailed as local saviors, visionary novices who were shaking up the stodgy world of steel. With enormous successes in their first few years – Geneva was called a "miracle mill" on the front page of The Wall Street Journal, while Forbes said the executives were able to "breathe new life into a hidebound business" – Geneva's leaders could afford to mock their own lack of experience. "The fact of the matter is, we didn't know a thing about the steel industry," Mr. Cannon said at one point. "We were too stupid to know it was stupid to buy a steel mill."

"Their timing was very good," said Richard Aldrich, a Lehman Brothers analyst. "These guys were looking like heroes. But they bought the mill when the price of steel was taking off. The problem is those good years are few and far between."

For fiscal 1988, Geneva reported net income of $68.5 million. It has been pretty much downhill since. It reported a loss in fiscal 1992, 1993 and 1994. It had a small profit in 1995, but had losses the last three fiscal years during one of the most robust steel markets in two decades.

While the downturn in the early 1990s resulted in large part from overall weak market conditions, the most recent one results from the weak market as well as the huge debt load Geneva carries. The company went through a major overhaul in the mid-1990s, and today is stuck with the tab for it. "We have a little of a Catch-22," said Mr. Cannon. "We had to modernize to stay competitive, but in order to do that we had to incur this debt."

Spending on Modernization

Overall, Geneva spent about $400 million to modernize its mill, and analysts said the new equipment – despite some start-up woes – has created a generally well-run and efficient operation. Since 1988, Geneva's operating income has been positive every year but two.

But the interest payments are hefty. In fiscal 1998 ended Sept. 30, Geneva's operating income was $21.4 million, but it then had to contend with interest payments of $42.5 million, pulling its overall results into the red. It is carrying some $380 million in long-term debt, and has a sky-high debt-to-equity ratio of more than 500%.

"When the market is strong and volume is high, you can walk the thin line between servicing debt and maintaining capital expenditures," said Mike Locker, a steel-industry analyst based in New York. "When the market turns down, it becomes much harder to handle it."

The main problem in recent months is fairly straightforward: plummeting prices and shipments. Sales during the September quarter were down 12.3% from the year-earlier period, while shipments were down 14.6%. Since then, the company shipped 92,000 tons of steel in October, and officials said shipments in November and December could come in lower still. A normal month of shipments would total more than 165,000 tons.

Geneva's location also has hurt. While it was a benefit in a different era, Geneva's setting doesn't count for much with the nation's main steel markets in places such as Detroit and Chicago. "Geneva hails itself as the only integrated mill west of the Mississippi," said Mr. Aldrich. "That isn't something to brag about."

Geneva has been hit hard partly because its main product – thick steel plates used for building things such as ships and rail cars – was one of the first to be hurt by imports. Further, analysts said, Geneva sells nearly all its steel in the spot market. As a result, it doesn't have the long-term contracts necessary to cushion its fall in times that spot prices are dropping, as they started to do last summer. To make matters worse, more competition in the plate business is coming on line–and from such low-cost stalwarts as **Nucor** Corp.

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